Japan

Problems of the Coming Decade

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In the last issue of INTERECONOMICS Willis W. Harman and Bernard Cazes explained their views of the basic political, economic, and social problems which the USA and Europe, respectively, will face in the 1980s. The following article which is also an excerpt from the author's report to the Second International Symposium on New Problems of Advanced Societies, held from May 3 to 7, in Hamburg, deals with the Japanese Problems against the background of decelerating growth.

For Japan, the last twenty years have been an era featuring economic efficiency and growth-manship and, in a word, an "economic" era. During most of the postwar period, as compared against the interwar period, this is more or less true with almost all advanced industrialized countries. However, evidently Japan was the foremost example in its simple-minded devotion to economic growth. The Japanese society has achieved extremely rapid economic growth at an average annual growth rate of a little more than 10 p.c. in real GNP over the twenty years, and finally attained affluence comparable to average European levels. However, a number of recent events — the end of IMF system, the environmental problem, the oil panic and the difficulty combating with inflation — suggest that this era is now closing to its end. Almost all arguments inside as well as outside Japan seem to agree that the Japanese society is entering a new phase, less economic and perhaps more political. Japan's problem is indeed the problem of all advanced societies, but there are some Japanese peculiarities. The following argument will try to point them out.

Let us enumerate several major issues in forecasting a potential picture of the Japanese economy in the coming decade. Concerning each of the issues as well as the issues as a whole, there are optimism and pessimism.

Deceleration of Growth

There is virtually a unanimous agreement that the deceleration will occur to the Japanese economy. The problem is how big the deceleration will be. The reason for this deceleration is as follows. It seems that a postwar surge of scientifico-technological innovation is closing to its end, and life cycles of consumer durables are finishing their final stage of diffusion. The expansion of Japanese exports will be slower and the terms of trade will probably deteriorate especially due to the rising oil price. Capital coefficients will be higher, because of necessary substitution for increasingly scarce labor and because of rising demand for social overhead capital including anti-pollution investments. In numerical terms, most of the forecasts announced by many institutes range from 5 to 8 p.c. of annual growth rate of real GNP. My own estimation based on dynamic input-output model leans on the optimistic side and predicts gradual further deceleration — the potential growth rate will, at minimum, be nearly 7 p.c. in 1975, 6 p.c. in 1980 and 5 p.c. in 1985.

However, there are some pessimists who predict lower growth potential. They emphasize imminent difficulties in tackling such politico-economic demands from developing countries, environmentalists, opposing residents, etc. Their pessimism is a political pessimism rather than an economic one.

Gradual Change in Industrial Structure

During the growth period, the industrial structure of the Japanese economy has been drastically changing; some of the main industries — for example, agriculture or coal mining — have declined so rapidly. Hereafter, however, changes in industrial structure will be by far more gradual because of slower economic growth and fewer new technologies. Agriculture will continue to become smaller. A number of light industries, say, textile, will also decline due to increasing competition from the industrializing countries around Japan — notably, Korea, Formosa and Hong Kong. Gradual relative expansion of machinery may well be predicted. A possible relative expansion of service industry is a controversial matter as in many other industrialized affluent countries.

Some of the Japanese economists try — not simply to predict — to encourage decline of such basic industries as steel, petro-chemical, etc. Instead, they seem to recommend more sophisticated type of machinery or service industry — for example, knowledge industry or leisure industry.

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rather than whole-sale or retail trade. However, I would like to argue that such sophistication will come about only as a very gradual attempt within each industry — not as a new leading sector.

In spite of Japan's high growth rate, its government expenditure has remained moderate. Tax revenue has been around 20 p.c. of GNP, which is the lowest figure among the developed nations. Social overhead capital has been poor compared with private capital. Social security or other transfer payments have been almost meagre unlike other advanced societies. Hence, particularly in Japan in the years ahead, the popular — urban, in particular — demands will necessitate more social security and more welfare-oriented public investment.

Currently in Japan, there is much debate as to whether Japan is to be another "welfare state", or what kind of "welfare state" is to be designed for the Japanese case. Mainly by the socialist groups, an outright introduction of British or Scandinavian precedents was often suggested. Recently, however, an average opinion seems to be getting more suspicious of those North-European experiences in view of their staggering social performances. As I predict, an introduction of public welfare measures in Japan will — and can — be gradual and restrained, thanks to the built-in "welfare" functions of the Japanese collectivities such as the family, the workplaces and others.

As the economist might argue, the supply of public goods is likely to be conflict-ridden. There seem to occur frequent conflicts as to how land is to be allocated for housing, factories, generation plants and so forth. Environmental problems will be typically conflict-ridden. Greater tax burden will cause serious discontent. On the whole, increased strains in domestic politics are likely to accompany the relative expansion of the public sector.

Inflationary Trend

Just as in other advanced countries, the Japanese economy will face a number of tenacious cost-push factors including higher resource prices and higher costs due to the expanding public sector. Of course, wage might be another serious cost-push factor. In my opinion, however, wage cost pressure will be lower in Japan than in the majority of developed countries, because of the peculiar Japanese labor management practices which we shall later examine. A danger of price-wage spiral depends largely on how militant the labor unions in the public sector will turn out to be.

As we pointed out at each of the above major issues, there can be an optimism as well as a pessimism in the economic dimension. The pessimism seems to be a minority among the trained specialists including Economic Planning Agency. However, against the background of secular undercurrent of anti-industrialization, the pessimistic opinion remains still influential among the general public.

In my opinion, this pessimism is unsound. There seems to be enough reason to predict, for the Japanese economy, economic performances somewhat superior to other industrialized countries. Japan's drawback in the near future is, on the one hand, its total lack of domestic sources of raw materials and its very dense population in the megalopolitan area, on the other. These two weaknesses imply the more strict anti-pollution policies and the overriding dependence on world markets, respectively. The burden of anti-pollution policies is, in my estimation, at most 1 or 2 p.c. out of the 10 p.c. growth rate attained hitherto. Still high saving ratio and still strong activist motivation being given, the Japanese economic performances can remain remarkable. If the international trade of raw materials, including oil, is not seriously disturbed, the problem is probably how smoothly an adjustment for deceleration is to be made and how disturbances in international trade are to be absorbed. This is mostly a political matter.

Nonetheless, there is still a possibility that a pessimistic course will be taken even under the conservative regime. In my opinion, this slower course will continually suffer from deflationary pressure amounting to stagflation under the present circumstances. Serious political and social problems including unemployment and lagging welfare policies will ensue. The coming ten years will be a transitional phase for the Japanese society. For this transitional period, an immediate danger in the domain of economic policy is an economic over-pessimism but not an economic over-optimism.

Changes in the Sociological Structure

In the course of one-hundred years' modernization, sociological structure of the Japanese society has undergone considerable change. In this process, a central strategic concept is probably the concept of "ye" which literally means "the house". A sociological analysis of the ye is too enormous a topic to be discussed here in detail. The ye is a uniquely Japanese functional organization or Betrieb, which is akin to the extended family, the patriarch or the patrimonial system, but exactly none of them. As early as the tenth century, the ye emerged in embryo in the frontier